Utah Construction & Mining Co. Annual Report 1966

The Year at a Glance

	1966	1965
Net income after taxes	$13,175,463	$11,016,491
Depreciation and depletion	$ 4,565,295	$ 4,899,797
Earnings per share	$ 3.06	$ 2.56
Cash dividends per share	$ 1.10	$ 1.00
Net worth per share	$ 19.72	$ 17.76
Net worth	$84,801,654	$76,356,454
Common shares outstanding (Net of Treasury shares)	4,300,239	4,300,239
Number of shareholders	4,265	3,796

Our Cover: The growing electrical energy requirements of the greater Los Angeles area are symbolized by this year's cover. Utah is proud to have contributed toward the fulfillment of those requirements. Over the years Utah has forged a growing alliance with the public utility industry as a builder of hydroelectric projects and recently as a supplier of energy in the form of coal and uranium. In 1931, Utah was instrumental in the formation of the Six Companies which built the Hoover Dam, thereby harnessing the power potential of the Colorado River for the first time. Even today, Hoover Dam provides a substantial portion of Los Angeles' power requirements. In 1959, Utah participated in the construction of the Mammoth Pool Project which harnessed the flow of the San Joaquin River for the Southern California Edison Company. In October of this year Utah signed an agreement with six public utilities which requires us to supply about 6 million tons of coal annually for power generation at the mine site in northwestern New Mexico. Approximately one half of the 1.5 million kilowatts generated will be furnished to the Southern California Edison Company whose primary market is shown in this picture.

To Our Shareholders:

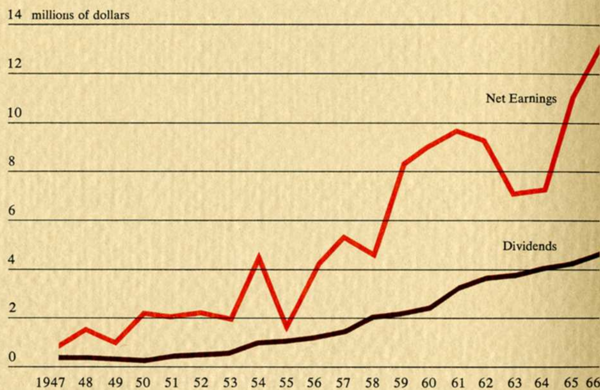
The Fiscal Year 1966 was a significant one for your Company—significant in terms of current earnings, and even more in terms of future income. Most importantly, during the past year our backlog of mineral sales more than doubled, so that it now exceeds $1 billion and provides a solid foundation for continuity of earnings for many years in the future.

Earnings up 20% to $3.06 a share, or $13,175,000

Both current results and future prospects benefited from a year of gratifying achievements. This year's record earnings, up 20% over last year, amounted to $13,175,000, the equivalent of $3.06 a share, compared to 1965's figure of $2.56 a share. Improved earnings from mining interests and construction operations more than offset lower earnings from our land development activities this year. Consequently we were able to increase our dividend payments to $1.10 a share, which was 10 per cent above last year. This represents the 16th consecutive year in which dividends have been increased, and dividends have been paid in each year since 1931.

16th consecutive dividend increase

Net Earnings and Dividends



$35 million refinancing at 5½%

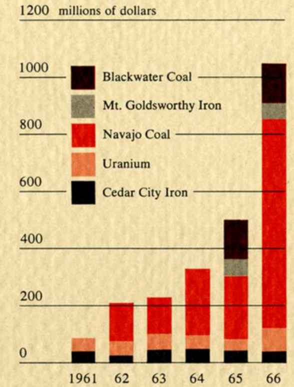
To provide funds for future growth, additional long term borrowings were arranged. In December 1965 a refinancing agreement was concluded with the Prudential Insurance Company of America which provides that Utah will be able to borrow up to $35,000,000 evidenced by notes bearing interest at 5½%, and due February 1, 1986. The timing of this refinancing was fortuitous in view of the subsequent rapid rise in interest rates. In keeping with President Johnson's program regarding U. S. balance of payments, approximately $7 million of financing was arranged in Australia on behalf of our Blackwater mine and our share of the Mount Goldsworthy facilities in Australia.

Mineral backlog doubled to over $1 billion

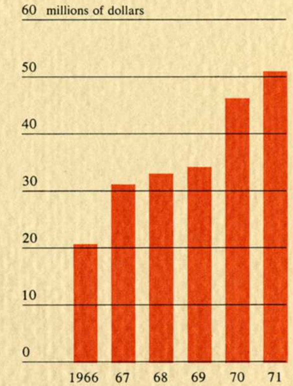
The sizable increase in our mineral backlog from $500 million last year to over $1 billion resulted from the execution of a new fuel agreement covering sales of coal from our Navajo property in New Mexico, sales from our Blackwater deposit in Queensland, Australia, and three sales of uranium oxide to private users. The significance of this sharp rise can be seen on the Contract Backlog of Mineral Sales graph shown on the next page. The accompanying graph shows our estimate of gross revenues from mining operations, excluding Marcona and Pima, for last year and the next five years. Without taking into account future additions to the contract backlog, these revenues will more than double by 1971.

Backlog of Mineral Sales

As of October 31



Gross Revenue from Mining Operations



Navajo to supply 6 million tons of coal annually for 1, 510,000 kw. expansion

Solid progress has been made toward making the Company's Navajo mine the largest single producer of coal in the United States. A group of utilities has started constructing two additional generating units adjacent to the mine site—units which will increase total generating capacity from the existing 575,000 kw. to 2,085,000 kw. This additional capacity will be owned by six member utilities of the WEST Associates and will serve large areas of the Southwest. The first of the new 755,000 kw. generating units will be in operation in early 1969, and the other unit in early 1970. The fuel supply agreement for the 1,510,000 kw. addition, which was signed by Utah on October 31, 1966, will require about 6 million tons of coal annually. When added to the present output of 2.5 million tons, total production will be approximately 8.5 million tons annually. The new agreement by no means exhausts the potential of the Company's Navajo mine. Total reserves amount to over 750,000,000 tons of strippable coal—enough to meet the present electrical energy requirements of greater Chicago for fifty years. The Company's large-scale operations at this mine make its fuel price among the lowest in the United States, and its location permits it to serve the utility needs of the growing Southwest.

Queensland coking coal contract finalized 13½ million tons over 10 years beginning in 1968

The second significant addition to our backlog of coal sales was the finalization of an agreement with Mitsubishi Shoji Kaisha, Ltd., one of Japan's largest trading companies, for the sale of 13,500,000 tons of coking coal over a ten-year period from our Blackwater mine now under construction in Queensland, Australia. This coal will be consumed by major Japanese steel companies and a chemical company. The agreement stipulates the commencement of deliveries in 1968, at a rate of 500,000 tons that year, 1,000,000 tons in 1969, and 1,500,000 tons yearly thereafter for the completion of the contract. This sale will generate approximately $137 million in gross revenue.

Authority to Prospect over 1,600 square miles

In the same general area of Queensland as the Blackwater mine, Utah controls 1,600 square miles of potential coking coal lands under an Authority to Prospect.

3 private sales of uranium in excess of 3 million pounds

Three private sales of uranium oxide also contributed substantially to the increase in mineral sales backlog and confirmed the Company's optimism of a year ago regarding the outlook for uranium. These sales call for the delivery of approximately 3,205,000 pounds of concentrate during the period 1967 through 1970. The first of these was a sale of a minimum of 740,000 pounds of uranium oxide to a Swiss utility company, NOK, for the first fueling of a 350,000 kw. generating plant located at Breznau, Switzerland. Delivery is scheduled to commence in June of 1967. A second sale of a minimum of 765,000 pounds was made to OKG, an operating company owned by eight Swedish utilities. Deliveries under this sale are scheduled between April 1 and September 30, 1968. The third sale was to the General Electric Company calling for deliveries between a minimum of 1,700,000 pounds and a maximum of 2,000,000 pounds of uranium oxide over the two-year period 1969 and 1970.

Outlook for uranium continues to be favorable

These new sales underscore the rapid growth in the number of nuclear power plants slated for construction within the next few years. This growth has far exceeded even the most favorable estimates of two or three years ago. As pointed out in last year's annual report, the Company has substantial uranium reserves in Wyoming at Lucky Mc and Shirley Basin and a modern and efficient mill at Lucky Mc. These factors, coupled with our continuing activity in uranium exploration, put Utah in an excellent position to participate in the future growth of the nuclear power industry.

Marcona reorganized and Utah equity ownership increased to 46%

Both immediate and long-range benefits are anticipated from several developments affecting three companies in which Utah and Cyprus Mines Corporation have the principal interest—Marcona Mining Company, Cia. San Juan S.A., and San Juan Carriers, Ltd. During fiscal 1966, these three companies became subsidiaries of a new corporation—the Marcona Corporation—in which Utah has 50% of the voting stock and now holds 46% of the equity stock, an increase in equity of 3% during the year. This reorganization will provide economies in management and administration.

Marcona's pellet capacity now 3.3 million tons annually

Marcona Mining Company's iron ore operations in Peru have continued their excellent progress during the past year. The new pellet plant, rated at 2 million tons per year, was put into operation in May, and the first pellet plant was modified to increase its capacity from 1.0 to 1.3 million tons annually, giving Marcona a total capacity to produce 3.3 million tons of pellets per year. Because pellets have the highest profit margin among beneficiated products, Marcona's earnings will benefit from this improvement in product mix.

Cia. San Juan S.A. is the other principal subsidiary of the newly organized Marcona Corporation. It markets iron ore, both for Marcona Mining Company and for Mount Goldsworthy.

San Juan building largest ore carrier in the world at 105,000 tons

San Juan Carriers, Ltd., a subsidiary of Cia. San Juan S.A., operates one of the world's largest fleets of bulk carriers, including eight ships owned by San Juan and twelve ships under long term charter. Newest addition to the fleet is the 63,000 deadweight ton, "San Juan Trader," launched on January 7, 1966 at Kawasaki, Japan, and now in operation. Another ship of 105,000 deadweight tons is scheduled for delivery late in 1967. It is expected to be the largest ore carrier ever built, and its addition to San Juan's fleet will raise total owned and term-chartered shipping capacity to about 1,500,000 deadweight tons.

The addition of the "San Juan Trader" further improved the economy of operation of San Juan Carriers' already profitable fleet. This ship can be loaded to its maximum capacity with any of several bulk commodities —iron ore, petroleum, grain or coal. Thus it is possible to carry a cargo

of one material in one direction and backhaul a different commodity, thereby achieving improved utilization of the cargo-carrying capacity.

Utah's share of Marcona's consolidated earnings $4,143,000

During the 1966 fiscal year, shipments from the Marcona mine exceeded 6½ million tons. Utah's share of the consolidated earnings of Marcona Corporation, after provision for distribution taxes, amounted to $4,143,000, and compares with $4,204,000 for last year. This slight decline in reported profits reflects a 1966 change in financial reporting practice increasing reserves for deferred foreign taxes, and also reflects increased operating costs principally arising from the start-up expenses of the new pellet plant, the full profit contribution of which was not fully available until after the close of the 1966 fiscal year. In addition to increased profit margins from pellet sales, the Marcona mine will realize reduced costs from construction currently in progress including the extension of the conveyor haulage system to cover the entire distance from the mine site to the port. Also increased earnings will result from Cia. San Juan's handling of Mount Goldsworthy sales.

19 shipments from Mount Goldsworthy

The first shipment of iron ore from Mount Goldsworthy left Port Hedland, Western Australia, on June 2, and by October 31, there had been nineteen shipments totaling 509,397 tons. The ore is being sold under a seven year contract with Japanese steel mills which provides for the delivery of 1½ million tons in the twelve months ending April 30, 1967, and 2½ million tons annually for the remaining six years.

Utah's year end investment in Goldsworthy $16 million

This major iron ore development is owned in equal shares by Utah, Cyprus Mines Corporation, and Consolidated Goldfields (Australia) Pty. Limited. Cia. San Juan S.A., a subsidiary of Marcona Corporation, negotiated the sales contract and is handling most of the ocean shipping. Utah's investment in the Mount Goldsworthy project at year end was $16 million.

Your Company continued to mine iron ore at its Iron Springs mine near Cedar City, Utah, under a sales agreement with the U. S. Steel Corporation which runs until 1975. Utah also acts as a contract miner for C. F. & I. Steel Corp. in the Cedar City area. Due to lower tonnages at both operations earnings were below those of last year.

Pima being expanded again to 30,000 tons per day

The continuing expansion of the Pima copper mine near Tucson, Arizona, has enlarged its capacity from 6,000 tons per day in 1965 to a current figure of 18,000 tons per day, and this will be further increased to 30,000 TPD by late 1967. This expansion will enable Pima to process lower grade ore. During 1966 Pima received premium prices on 40% of its production, and has already booked premium sales into 1967. Utah owns 25% of Pima Mining Company, with 50% owned by Cyprus Mines Corporation, and 25% by Union Oil Co. of California. Pima achieved record earnings during the year and Utah's share of these earnings, after distribution taxes, was $1,865,000, compared with $908,000 last year.

Pima's earnings increased due to higher volume and premium prices

During the past year, your Company continued to supplement its producing mining properties with a vigorous program of geological exploration and mineral development. Major efforts were underway in Australia, Western Canada and the western United States, with part of our program devoted to the search for minerals which we do not currently mine.

Highest construction earnings ever

The Construction Division's profit performance for the year was the highest in the Company's history. The backlog at October 31 was $115 million, compared to $141 million a year ago. This decline is the direct result of a more selective bidding program. The current backlog is made

79% of backlog is negotiated work

up of 79% negotiated work, as compared with 51% a year ago and less than 10% two years ago. The net effect is to provide more assurance as to the profitability of the backlog. Important new work acquired during

the year included a U. S. Government cost-plus-award fee type contract for construction in Thailand by a Utah-sponsored joint venture, and a cost-plus-fee contract from Cerro Corporation for engineering and construction of a new copper mining operation in a remote area of Peru.

A Utah-sponsored joint venture is constructing the Tailrace Tunnel for the Manapouri Project on the South Island of New Zealand. This hydroelectric scheme, New Zealand's largest, utilizes a mountain range as its dam and two natural lakes as its reservoir. From Lake Manapouri water will drop approximately 600 feet through penstocks to turbines located in an underground Powerhouse, and thence through the 6¼ mile Tailrace Tunnel into the Tasman Sea.

Manipouri Tailrace Tunnel contract converted to a cost-plus-incentive fee basis

Initially awarded on a fixed price basis, the contract is being amended as of October 1, 1966, to convert it to cost reimbursement plus an incentive fee. The change in the contract was made because unexpected and very difficult tunneling conditions had been encountered. Badly fractured rock and excessive inflows of water under high pressures had slowed the progress of the work and substantially increased its cost. Utah had recorded material losses on the project, but under the new contract arrangement all costs will be assumed by the Government of New Zealand as of October 1. In addition to converting the contract, a cash payment will be made by the Government in settlement of the joint venture's claims for conditions encountered between February 1966 and the end of September.

Under a separate cost reimbursement plus incentive fee contract Utah is constructing the underground Powerhouse which is the other principal element of the Manapouri Project.

A number of construction projects successfully completed

Impressive Construction Division accomplishments during the year included completion on an accelerated schedule of the Mount Goldsworthy iron ore project under the target cost estimate; completion of the Oued Nebaana dam for the Government of Tunisia; completion of the Marcona Stage VII expansion and Pima Stage II expansion programs; completion of the 106-mile Avon Valley railroad project in Western Australia; an oil bitumen plant for Shell Oil Company of Australia Ltd.; successful joint venture participation in the large San Luis Dam project at Los Banos, California; and the Grand Forks Air Force Base and Malmstrom Air Force Base Minuteman missile installations. The year end also brought the promise of impending successful completion of the Mt. Coffee Hydroelectric project in West Africa. Currently, the Wells Dam on the Columbia River is not profitable and its outlook is uncertain.

Utah enters construction materials business with new sand and gravel operation

Utah's Construction Division will also direct a new project which bridges all three operating sectors of the company. We have acquired control of substantial acreage at the mouth of the Russian River, some 60 miles north of San Francisco. This land, which extends some 4.5 miles upstream, contains deposits of sand and gravel estimated at 60 million tons. The plan is, under a long-term lease with the State of California, to dredge sand and gravel from the river bed and transport it by barge to Richmond in the San Francisco Bay, where it will be processed and sold in the Bay Area market. The first sales agreement is to furnish 800,000 tons of material for backfill on the transbay tube, part of the Bay Area Rapid Transit System. Much of the land which we control contiguous to the Russian River will not be utilized in the gravel operation, and this property is available for other development.

The Construction Division has continued to perform engineering services on a wide variety of work for other companies as well as in-house support of engineering and construction responsibilities on the Mount Goldsworthy, Marcona and Pima work. A feasibility study on the Cuajone Project for Southern Peru Copper Corporation was completed this year.

Dredging equipment fully and successfully utilized

Dredging had one of its most successful years with the completion of three profitable projects and the almost uninterrupted utilization of all the dredging equipment. Backlogs in current dredging contracts will keep our equipment occupied for at least another year. Overseas, the dredge, "Alameda," is currently scheduled to finish the Mount Goldsworthy dredging next year.

In spite of the high level of interest rates which prevailed during the past year, our land development activity was profitable. In May, the Company acquired control of 5,400 acres of land on the Monterey Peninsula, California, known as the Work Ranch. This land is located adjacent to the city of Monterey. Under the terms of our agreement, we will have an opportunity to develop the property in a manner which is consistent with the future needs of the Monterey Peninsula.

Utah acquired control of the 5,400 acre Work Ranch

Bay Farm Island reacquired and land being reclaimed

Late in October, Utah reacquired the Bay Farm Island property, which had previously been sold in 1964. This property is located on the waterfront of the San Francisco Bay within the city of Alameda and contains approximately 903 acres of land. We estimate that it will require approximately two years to reclaim the land. Arrangements have been concluded between Reclamation District 2105 and our Dredging Division to have the dredge "Franciscan" place the estimated 20 million cubic yards of fill material required for the reclamation.

At Pauma Valley, California, the Company neared completion of the first stages of its development program. At year end there were 1,292 acres unsold. This property is situated between San Diego and Los Angeles at the foot of Mt. Palomar. The facilities already constructed include an 18 hole golf course, a club house, cottage units containing accommodations for 100 guests, swimming and tennis facilities and a 2,700 foot landing strip for private planes. A 23 acre lake is in the planning stage. On July 5th, Pauma Valley Country Club became a private membership club, with all facilities reserved for members and guests. This has materially reduced revenues from the use of the Club's facilities, and for the time being operating losses continue to be recorded. The membership is developing satisfactorily, however, and as lot and cottage sales begin early in 1967 a marked improvement in the results of the over-all project is anticipated.

Pauma Valley Country Club is now a private membership club and lot sales are commencing

Sales program at Diamond Oaks underway

Our sales program at the Diamond Oaks development near Sacramento, California, commenced in June. This property embraces 880 acres of prime residential land situated between the Sierra View Country Club Golf Course and the Roseville Municipal Course. Approximately 60 acres have been subdivided thus far to provide single family dwelling units.

The South San Francisco Industrial Park has only 56 acres remaining unsold of the original 310 acres. During the past year, we completed the construction of an industrial condominium on the property. A second industrial park, El Segundo, is located near the Los Angeles International Airport. During the year several sales of land were made in this park, and at year end only 75 of the original 197 acres remained unsold.

Saint Paul's Towers completed and fully occupied

Saint Paul's Towers, a 24-story senior citizens' apartment complex located adjacent to Lake Merritt in Oakland, California, was completed in October. This project, built for St. Paul's Episcopal Church of Oakland contains 286 apartments, and was conceived, designed, financed and constructed as a turn-key operation by Utah and its joint venture partner. Occupancy commenced on October 10th, with all apartments reserved and a waiting list for future vacancies.

Vandenberg Village lot sales recovering

Activity at Vandenberg Village which had remained at a low level for most of the past year showed signs of revival at year end. The Village, located adjacent to Vandenberg AFB at Lompoc, California, is primarily a residential development containing a shopping center, schools, churches, apartments, motels and a golf and country club. Earnings were modest during the past year due to a reduced level of activity at the Air Force Base. However, with the announcement of the $1.5 billion Manned Orbiting Lab Program, which will become operative at Vandenberg in 1967, sales are increasing. Utah's property in the Moraga Valley in the San Francisco East Bay Area consists of a remaining 2,358 acres held for investment and ranching purposes. Approximately 50% of the remaining acreage is developable.

Earnings from South Shore Center Inc. in Alameda improved during the year. Utah profitably disposed of its investment in the Bay Mart discount center building in San Jose, California, and also the multi-storied parking garage in downtown Seattle.

Loss of beloved friend and director Marriner A. Browning

We were deeply grieved by the loss of our beloved friend, Marriner A. Browning, who was a director of your Company for 22 years. We all miss his warmth, wisdom and valued counsel.

In December 1965, Charles T. Travers was elected a Vice President of the Company serving in the Land Division.

Future outlook encouraging

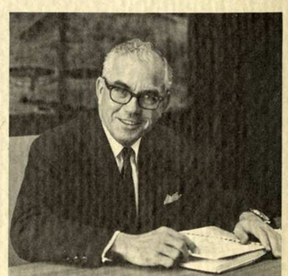
We view the prospects for 1967 and the years ahead with optimism. Earnings in 1967 will benefit from anticipated profits from construction and increased earnings from mining sources. Land development activities will continue to be affected by tight money and are not expected to maintain the profit levels recorded in 1965 and 1966. Looking further ahead, mining earnings should continue to grow as new properties are brought into production and existing properties are expanded in keeping with commitments already in hand.

We are genuinely appreciative of the loyalty and the skillful manner in which our officers and employees discharged their appointed duties, of the confidence expressed in our company by its customers and clients, and by the support of our shareholders. May we continue to merit your support and confidence.

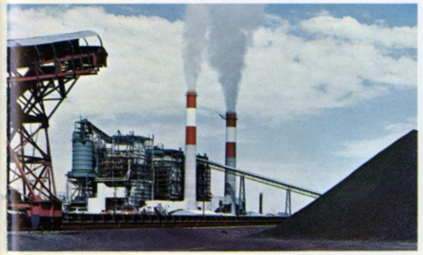
Respectfully submitted,

Marriner S. Eccles
Chairman of the Board

E. W. Littlefield
President and General Manager



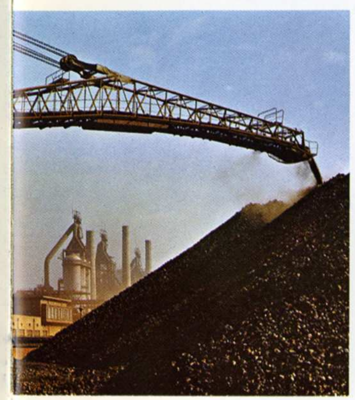
Below and to the right are four pictures showing various aspects of the operations at our Navajo coal mine in the Four Corners area of New Mexico. Directly below is the 45 cubic yard bucket suspended from the boom of the walking dragline. The top picture on the right shows blasting of the overburden covering the coal seams prior to its removal by the dragline. In the middle picture the exposed coal is loaded into a combination carrier with a total capacity of 270 tons.
The bottom picture shows the coal stockpiling area from which the coal is delivered to Arizona Public Service Company's 575,000 KW generating installation standing in the background.

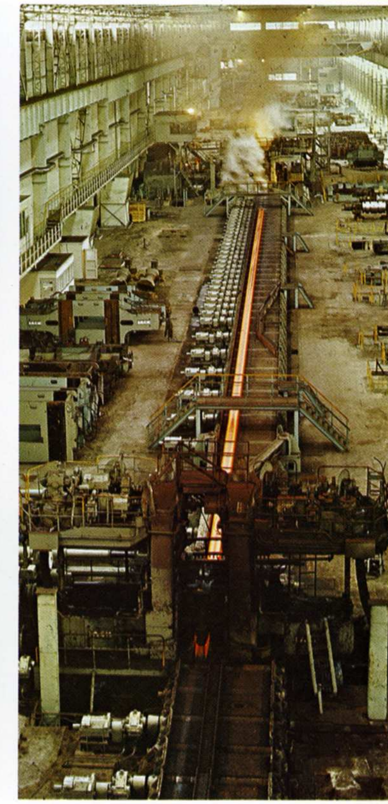


The site of our Blackwater coking coal mine in Queensland, Australia, is shown below. The flat terrain is ideal for strip mining operations. This mine will be operative in 1968.

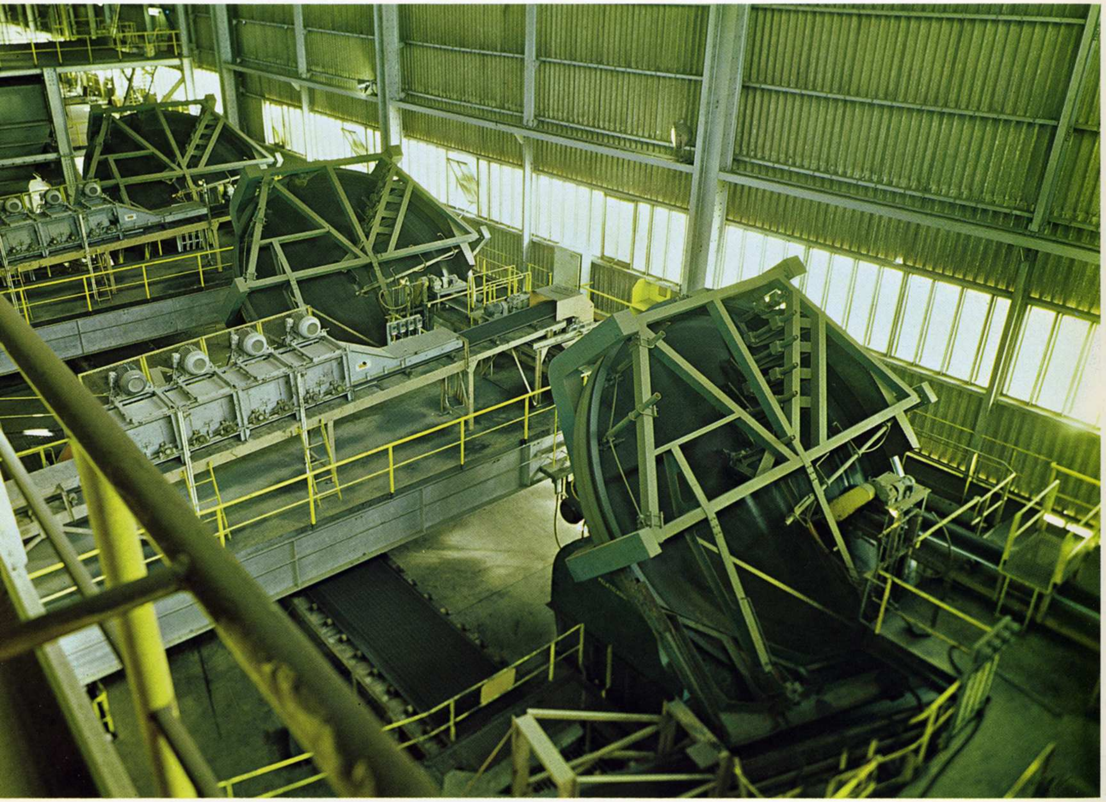
Utah's Lucky Mc uranium operations in Wyoming are illustrated below. At the top is a view of a typical open pit mining site in the Gas Hills area. Below, to the left, are shown a scraper and two pushing tractors removing the overburden from the uranium ore deposits. The man with the Geiger counter is checking for the presence of uranium mineralization. Shown to the right is the formation of Yellow Cake on a filtration drum preparatory to drying and packaging.

Utah's international mining interests serving the growing world steel industry are exemplified by many pictures on this page and others. In particular, Utah continues to benefit from its association with the rapidly growing modern Japanese steel industry by: its Queensland coking coal property, the newly opened Mt. Goldsworthy iron ore mine and by its ownership in Marcona Corporation. Immediately below is a picture of the first iron ore shipment from Mt. Goldsworthy in Port Hedland, Australia, destined for Japan's blast furnaces, shown at the bottom to the left. The advanced state of Japan's steel making capacity can be seen in the middle photograph of a new LD converter and the highly automated rolling facility at the right.

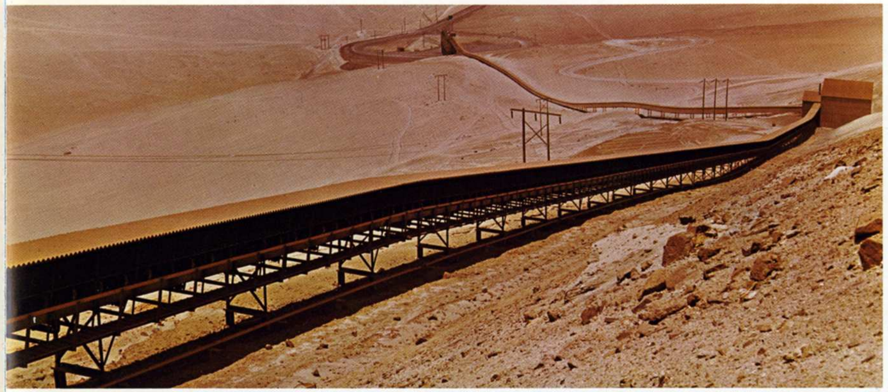


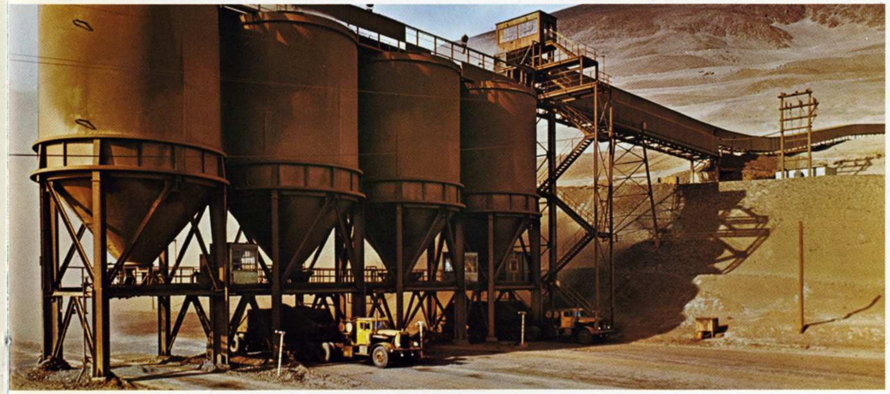


Marcona Corporation's pellet making capacity of 3.3 million tons makes it one of the largest independent producers of iron ore pellets in the world. This capacity is coupled with a large reserve of low cost ore. Below is shown the 19½ foot diameter rotating discs which form the "green pellets" prior to their being fired into a hardened finished product.



In order to maintain its competitive position through enhanced productivity Marcona has utilized the most efficient operating methods and equipment. An example of Marcona's continuing attention to productivity improvement is the present downhill ore conveyor shown in two views below. When completed the conveyor will carry iron ore the entire 9.5 mile distance from the mine to the port of San Nicolas where it is beneficiated prior to being loaded aboard ore-carrying ships.





Marcona's affiliate San Juan Carriers, Ltd. provides the economies of large scale ocean transportation through its fleet of bulk cargo-carrying vessels including the new 63,000 deadweight ton "San Juan Trader" shown below.

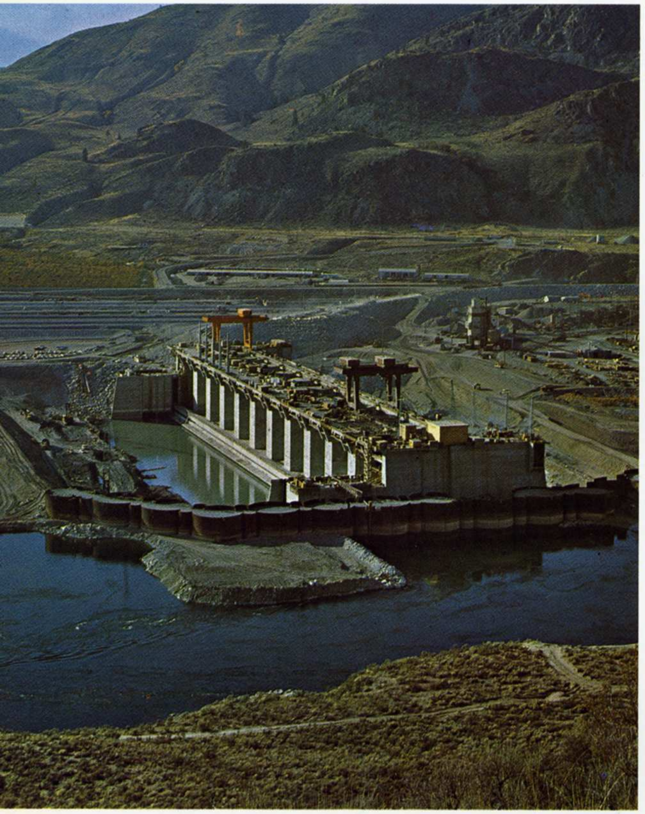
At our Iron Springs mine near Cedar City, Utah, we are processing alluvial iron bearing gravel by means of a portable concentrator, shown below. This piece of equipment was conceived and designed by Utah personnel and made possible utilization of ore which otherwise could not be economically processed by conventional mining techniques.

Utah participates in the thriving copper industry through its 25% ownership of the Pima Mining Company. Pictured below is an overall view of the mill facilities at the mine site near Tucson, Arizona. The continued expansion of this complex is being performed by Utah's Construction Division. At the bottom, batteries of flotation cells fill the expanse of the ore concentration building.

Utah's Construction Division is global in its endeavors as depicted on the next four pages. Directly below, a dredge works to clear a channel that will enable barges to enter the Russian River in Northern California and load sand and gravel. Next is the Mount Coffee Hydroelectric project near Monrovia, Liberia. In the center, Deep Cove on New Zealand's South Island, the site of the Manapouri Power Project, is shown. At the head of the fjord the Tailrace Tunnel outlet can be seen; to the right, the hostel ship, "Wanganella," provides living quarters for the tunnel crews; and beyond the Wilmot Pass in the distance lies Lake Manapouri, site of the underground West Arm Powerhouse.

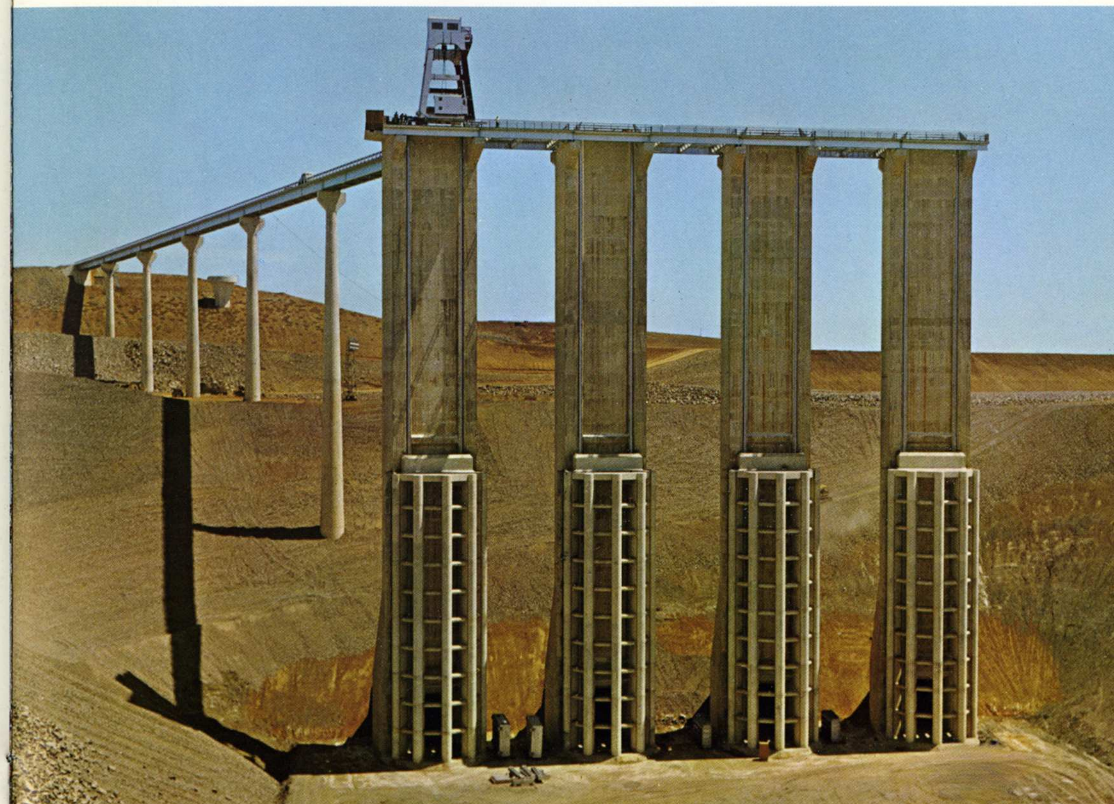
Pictured below, from top to bottom are: the Utah dredge, "San Mateo," as she works on the trench for the Bay Area Rapid Transit tube across San Francisco Bay, with the San Francisco-Oakland Bay Bridge in the background. Next, erected in the azure waters of Port Hedland is the iron ore ship loading facility built for Goldsworthy Mining Ltd. Utah built the 75 miles of railroad which connects Port Hedland with the mine site at Mt. Goldsworthy shown at the bottom.

On the Columbia River near Wenatchee, Washington, Utah is participating in the construction of the Wells Hydroelectric Project. This concrete gravity dam will house ten power generating units with an output capacity of 774,250 KW which will contribute significantly to the growing energy requirements of the Northwest.



Utah's Dredging Division's three dredges were heavily utilized during the year. Below, the 30 inch suction dredge, "Franciscan," begins the work of filling the Bay Farm Island tidelands with some 20,000,000 cubic yards of material. The project is being undertaken for the Bay Farm Island Reclamation District. Upon completion of the project at the end of 1968 approximately 903 acres of land will be available for development.

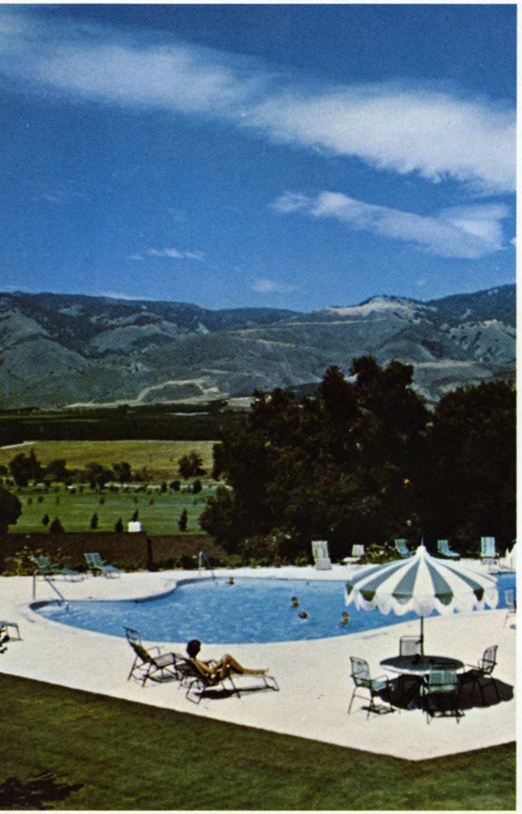
Utah is participating in the construction of the San Luis Dam near Los Banos, California, which is now nearing completion. Pictured below are the four mammoth intake structures which will divert water into irrigation canals for California's Central Valley Federal Reclamation Project. An understanding of the immense size of these structures can be appreciated by observing the man standing on the gantry between the first and second towers.

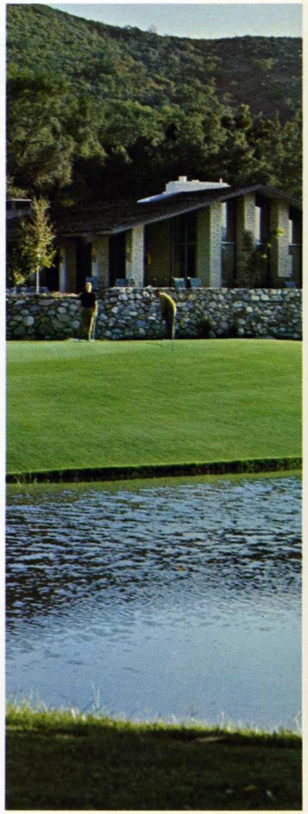


Located at the base of Mt. Palomar some 45 miles northeast of San Diego is Pauma Valley. The picture on the left shows a view across the valley and includes the Pauma Valley Country Club swimming pool in the foreground. The middle view shows the garden and inner courtyard of the Clubhouse, while the right hand picture presents another view of the Clubhouse with sections of the golf course and lake in the foreground.

During last year, Utah acquired control of the 5,400 acre Work Ranch, located along the Monterey-Salinas Highway. This property's scenic meadows and rolling wooded hills will provide excellent locations for future residential development.

Below is an interior view of the mall at the Alameda South Shore Shopping Center.





Auditors' Opinion

To the Shareholders and Board of Directors,
Utah Construction & Mining Co.:

We have examined the consolidated balance sheets of UTAH CONSTRUCTION & MINING CO. (a Delaware corporation) and subsidiaries as of October 31, 1966 and 1965, and the related statements of income, earned surplus and funds for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of affiliated companies (see Note 1 to the consolidated financial statements) but were furnished with reports of other public accountants thereon.

In our opinion, based upon our examination and the reports of other public accountants, the accompanying consolidated balance sheets and statements of income, earned surplus and funds present fairly the financial position of Utah Construction & Mining Co. and subsidiaries as of October 31, 1966 and 1965, and the results of their operations and the source and application of funds for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

Arthur Andersen & Co.

December 8, 1966.

At the left—Standing at the edge of Lake Merritt in Oakland, California, is St. Paul's Towers, a 24-story senior citizen apartment complex.

Assets

	1966	1965
Current assets:		
Cash	$ 5,761,969	$ 2,489,945
Marketable securities, at cost which approximates market	1,754,939	—
Accounts and notes receivable from operations	14,965,562	14,749,993
Inventories, at the lower of cost or market—		
Mining	3,418,607	3,056,862
Construction	1,724,301	4,437,500
Prepaid expenses	2,153,762	2,161,956
Total current assets	$ 29,779,140	$ 26,896,256
Investments:		
Affiliated companies (Note 1)	$ 41,578,831	$ 32,463,600
Equity in joint ventures	10,523,590	19,498,059
Land and real estate—		
Land held for development and sale, less purchase-money obligations (Note 2)	19,485,687	10,868,452
Land held for investment	1,829,788	1,855,819
Improved real estate held for investment, less accumulated depreciation of $2,039,719 in 1966 and $2,458,053 in 1965	8,019,823	11,907,844
	$ 81,437,719	$ 76,593,774
Other assets:		
Long-term receivables	$ 11,570,069	$ 2,858,102
Other	2,947,265	1,364,951
	$ 14,517,334	$ 4,223,053
Construction and mining equipment and facilities, at cost:		
Construction equipment and facilities	$ 12,728,288	$ 15,981,187
Mining lands, leases and development costs	11,086,471	9,133,602
Mining equipment and facilities	33,710,186	27,796,263
	$ 57,524,945	$ 52,911,052
Less—Accumulated depreciation and depletion	27,946,368	27,964,539
	$ 29,578,577	$ 24,946,513
	$155,312,770	$132,659,596

The accompanying notes are an integral part of these balance sheets.

Liabilities and Capital

	1966	1965
Current liabilities:		
Bank loans, notes and contracts payable, and current portion of long-term liabilities	$ 5,162,927	$ 7,729,561
Accounts payable	5,980,731	6,484,393
Accrued liabilities	5,713,275	3,521,432
Accrued income taxes	2,142,668	1,922,901
Total current liabilities	$ 18,999,601	$ 19,658,287
Long-term liabilities:		
5½% note payable to insurance company, due in varying installments from 1971 to 1986 (Note 3)	$ 30,000,000	$ 20,000,000
4¾% term loan payable to banks, maturing October 31, 1968	—	3,500,000
7¼% note payable to bank, unsecured, due in installments from 1968 to 1973	1,665,000	—
Bank loans, unsecured, due on or before December 30, 1968	1,000,000	1,625,000
Notes and contracts payable, due in various installments to 1987	9,002,220	4,178,810
Deferred income taxes	4,771,397	3,095,702
Reserves and other	5,072,898	4,245,343
	$ 51,511,515	$ 36,644,855
Stockholders' investment:		
Capital stock, par value $2 per share— Authorized—10,000,000 shares Issued—4,304,206 shares	$ 8,608,412	$ 8,608,412
Capital surplus	2,916,893	2,916,893
Earned surplus, including equity in undistributed earnings of affiliates (Notes 1 and 3)	73,378,618	64,933,418
Treasury stock, 3,967 shares at cost	(102,269)	(102,269)
	$ 84,801,654	$ 76,356,454
	$155,312,770	$132,659,596

Statement of Consolidated Income for the Years Ended October 31, 1966 and 1965

	1966	1965
Income:		
Gross revenues from operations (Note 4)	$98,453,451	$89,317,424
Costs and expenses	86,820,580	76,372,121
Gross profit from operations	$11,632,871	$12,945,303
Equity in net income of—		
Affiliates (Note 1)	6,711,959	5,494,231
Joint ventures (proportionate share of gross revenue was approximately $38,000,000 for 1966 and $49,000,000 for 1965) (Note 4)	4,396,303	465,982
Gain on sale of equipment and investments	1,682,207	1,749,375
Interest	958,484	338,147
Other income (expense)	(315,356)	(264,427)
	$25,066,468	$20,728,611
Expenses:		
General and administrative	$ 3,727,266	$ 3,383,893
Employees' retirement plan provision	705,000	680,000
Interest	2,658,739	2,113,227
	$ 7,091,005	$ 6,177,120
Net income before income taxes	$17,975,463	$14,551,491
Provision for income taxes	4,800,000	3,535,000
Net income	$13,175,463	$11,016,491

Statement of Consolidated Earned Surplus for the Years Ended October 31, 1966 and 1965

	1966	1965
Balance beginning of year	$64,933,418	$58,217,167
Add—net income	13,175,463	11,016,491
	$78,108,881	$69,233,658
Deduct—cash dividends ($1.10 per share in 1966 and $1.00 per share in 1965)	4,730,263	4,300,240
Balance end of year, including equity in undistributed earnings of affiliates (Notes 1 and 3)	$73,378,618	$64,933,418

The accompanying notes are an integral part of these statements.

Statement of Funds for the Years Ended October 31, 1966 and 1965

	1966	1965
Funds were provided from:		
Net income	$13,175,463	$11,016,491
Less—undistributed income of affiliates	4,390,004	4,589,386
	$ 8,785,459	$ 6,427,105
Add—Depreciation and depletion, expenses not requiring an expenditure of funds	4,565,295	4,899,797
	$13,350,754	$11,326,902
Increase in—		
Long-term liabilities—		
Loan from insurance company	10,000,000	—
Other, net	4,866,660	3,934,995
Decrease in—		
Investment in joint ventures (net of a $6,660,000 reclassification to long-term receivable)	2,314,469	—
Other assets	—	657,930
Total funds provided	$30,531,883	$15,919,827
Funds were used for:		
Increase in net investment in—		
Joint ventures	$ —	$10,887,144
Affiliates (net of undistributed income)	4,725,227	372
Land and real estate	5,036,921	1,435,000
Construction and mining equipment and facilities	8,863,621	4,029,009
Other assets (net of a $6,660,000 reclassification from investment in joint ventures)	3,634,281	—
Cash dividend paid to stockholders	4,730,263	4,300,240
Total funds used	$26,990,313	$20,651,765
Net increase (decrease) in working capital	$ 3,541,570	$(4,731,938)

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements, October 31, 1966

1. The consolidated financial statements include the accounts of Utah Construction & Mining Co. and all subsidiary companies, after elimination of significant intercompany items and transactions. In addition, the statements include Utah's equity in the net earnings of affiliated companies in which Utah does not have a majority interest; the equity in these earnings is recorded based upon the affiliates' audited financial statements as of their most recent fiscal year-end and upon subsequent interim reports submitted by the respective companies. Estimated income taxes payable on such earnings when distributed have been provided in the accompanying financial statements. The composition of Utah's investment in affiliated companies at October 31, 1966 and 1965, is as follows:

	1966	1965
Total equity in undistributed earnings of affiliates	$36,789,740	$31,838,387
Less—Estimated income taxes payable upon distribution of earnings	3,028,799	2,599,109
Included in earned surplus	$33,760,941	$29,239,278
Cost of investments	7,817,890	3,224,322
	$41,578,831	$32,463,600

On November 12, 1965, Marcona Corporation was formed to hold all the outstanding capital stock of two affiliates, Marcona Mining Company and Cia San Juan, S.A. Utah transferred its ownership in the capital stock of the latter two companies to Marcona Corporation in exchange for the same percentage of the capital stock of that company. Because of the reorganization, certain taxes which will be payable upon distribution of the earnings of Marcona Mining Company and Cia San Juan, S.A. (previously provided for by Utah) will now be paid by Marcona Corporation rather than Utah. Certain reclassifications have been made in the statement of consolidated income for 1965 to reflect this change. As a result, the equity in net income of affiliates previously reported for 1965 has been reduced by $615,000 with a corresponding decrease of a like amount in the 1965 provision for income taxes; these changes had no effect on net income for the year.

The accounts of foreign subsidiaries and affiliates have been translated to U. S. dollars at the exchange rates in effect as of October 31, 1966. Fluctuations in these exchange rates during the year had no significant effect upon the accompanying consolidated financial statements.

2. The company and its consolidated subsidiaries have entered into various agreements for the acquisition of land to be developed and sold. Among other things, certain of these agreements generally provide that the related obligations will mature only as the company chooses to develop individual units or parcels. Further, such obligations amounting to $3,698,394 at October 31, 1966, and $3,437,407 at October 31, 1965, are secured only by the related land in which the company has an investment of $2,914,712 and do not represent claims against other corporate assets.

3. The company's long-term loan agreement contains restrictive provisions, including certain limitations on the payment of cash dividends, on the purchase or redemption of its outstanding capital stock, and on advances to or investments in affiliated companies. Consolidated earned surplus in the amount of $9,100,000 was free of such restrictions at October 31, 1966.

4. Major construction contracts may extend over a period of years. Accordingly, the company reports income from its construction contracts on a percentage-of-completion basis. The company's share of income from joint venture construction contracts is reported in the same manner, based upon reports submitted by the respective joint ventures. Proceeds from claims against owners, or price adjustments arising out of construction contracts, are recorded in the year such claims are resolved. No significant items of this nature with respect to contracts completed in a prior year were recorded in 1966 or 1965.

5. Contingent liabilities include the usual liability of contractors for the performance and completion of both company and joint venture contracts. In addition, the company plans to invest funds in certain mining ventures in connection with their expansion and operating activities. As of October 31, 1966, the anticipated expenditures of this kind approximate $30 million.

The company has a lease agreement expiring in 1980 for the rental of its home office. The annual base rental under this agreement varies from $190,000 for 1967 to $210,000 for the last five years of the lease. The company also has a long-term lease agreement for equipment requiring payments of approximately $420,000 annually for a remaining period of 7 years.

6. U. S. and Peruvian income tax deficiencies have been proposed against certain of the company's affiliates for the taxable years 1953 through 1962. The deficiencies are being contested by these affiliates, and counsel has advised that there are substantial defenses against such deficiencies. In the company's opinion, any resulting tax liability of the affiliates would not have a material effect on the accompanying financial statements, and no provision therefor has been made.

In connection with its review of the company's income tax returns for the fiscal years 1955 to 1963 inclusive, the U. S. Internal Revenue Service has proposed certain deficiencies in taxes. Counsel for the company has advised it that there are substantial defenses against the proposed deficiencies and they are presently being contested. In the opinion of the company, the ultimate liability for the deficiencies, if any, will not exceed the amounts reserved therefor.

The company is defendant to certain pending litigation arising out of the 1960 merger with Lucky Mc Uranium Corporation. Management and counsel are of the opinion that the company's position is correct and sound, and the action is being vigorously defended. Accordingly, no provision for such litigation has been made in the accompanying financial statements.

10 Year Comparison (Consolidated) Years Ended October 31

In thousands except per share amounts and number of shareholders

	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
Gross Revenue	$ 98,453	$ 89,317	$ 59,890	$ 77,756	$ 84,294	$ 81,091	$ 69,179	$ 75,072	$ 62,081	$ 55,520
Net Income:										
Before Income Taxes	$ 17,975	$ 14,551	$ 8,439	$ 7,705	$ 11,871	$ 12,651	$ 10,609	$ 10,456	$ 6,285	$ 6,879
After Income Taxes	$ 13,175	$ 11,016	$ 7,292	$ 7,085	$ 9,321	$ 9,774	$ 9,135	$ 8,362	$ 4,758	$ 5,422
Per Share after Income Taxes	$ 3.06	$ 2.56	$ 1.70	$ 1.65	$ 2.17	$ 2.27	$ 2.12	$ 1.94	$ 1.11	$ 1.26
Dividends Paid:										
Cash	$ 4,730	$ 4,300	$ 4,085	$ 3,873	$ 3,753	$ 3,376	$ 2,497	$ 2,230	$ 712	
Stock of Other Companies (Market Value)									$ 1,389	$ 1,587
Capital Stock				100%	2%	2%	2%			100%
Per Share	$ 1.10	$ 1.00	$ .95	$ .90	$ .86½	$ .78	$ .58	$ .52	$ .49	$ .37
Common Stock:										
Shares Outstanding (Net of Treasury Shares)	4,300	4,300	4,300	4,302	2,152	2,111	2,070	2,030	2,023	2,023
Number of Shareholders	4,265	3,796	3,675	3,343	2,835	2,633	2,550	732	439	438
Total Assets (Less Applicable Reserves)	$155,313	$132,660	$116,252	$115,483	$115,229	$101,843	$ 90,715	$ 90,192	$ 81,401	$ 73,089
Working Capital	$ 10,779	$ 7,238	$ 11,970	$ 12,691	$ 13,910	$ 10,416	$ 9,943	$ 9,233	$ 9,455	$ 10,517
Long-Term Debt	$ 41,667	$ 29,304	$ 27,694	$ 30,220	$ 30,910	$ 27,548	$ 26,920	$ 30,440	$ 26,854	$ 22,548
Stockholders' Equity:										
Net Worth	$ 84,802	$ 76,356	$ 69,640	$ 66,480	$ 63,324	$ 57,756	$ 51,358	$ 44,748	$ 38,336	$ 34,364
Net Worth per Share	$ 19.72	$ 17.76	$ 16.20	$ 15.45	$ 14.71	$ 13.42	$ 11.93	$ 10.40	$ 8.93	$ 8.01

Shares outstanding in 1957, 1958 and 1959 have been adjusted to give effect to 242,533 shares issued on February 1, 1960, as a consequence of merger with Lucky Mc Uranium Corporation. Per share amounts for all years have been calculated based upon shares outstanding on October 31, 1966, giving effect to stock dividends of 2% paid in 1960, 1961, and 1962 and 100% in 1957 and 1963. Amounts for the years 1957 and 1958 are unaudited. The amounts shown as net income before income taxes for the years 1957 through 1965 have been adjusted to give effect to the reorganization in 1966 of an affiliate. As a result of the reorganization certain taxes payable upon distribution of the affiliate's earnings, previously provided for by the Company, will now be paid by the affiliate. This adjustment had no effect upon the net income after income taxes as reported.

Utah Construction & Mining Co.

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Ernest C. Arbuckle
Alf E. Brandin
Lawrence T. Dee
George S. Eccles
William R. Kimball, Jr.
Edmund W. Littlefield
Shepard Mitchell
Albert L. Reeves
Paul L. Wattis

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Marriner S. Eccles, *Chairman*
Edmund W. Littlefield
Albert L. Reeves

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Albert L. Reeves, *Senior Vice President and Secretary*
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George P. Sealy, *Assistant Treasurer*
W. Drew Leonard, *Controller*

Transfer Agents

First Security Bank of Utah, N. A.
Salt Lake City, Utah
Crocker-Citizens National Bank,
San Francisco, California

Annual Meeting

Tuesday, February 14, 1967, 2 P.M.
San Francisco, California

Home Office

550 California Street
San Francisco, California 94104